

REFORMING SOCIAL SECURITY

Option: Raise the Full Retirement Age

The age when a person becomes eligible to receive full, unreduced Social Security retirement benefits (the full retirement age), has been increasing from age 65 on a schedule set by Congress in 1983. It has reached 66 and will gradually rise to 67 for those born in 1960 and later. Raising the full retirement age further is one option to help close Social Security’s funding gap. The earliest age for claiming reduced benefits could remain at age 62, but the monthly benefit for those claiming early would be further reduced—about 6 to 8 percent for each year that the full retirement increases.

One proposal would raise the full retirement age to 68. Starting in 2023, the age would increase by two months each year until it reached 68 in 2028. This is estimated to fill 18 percent of the funding gap. Another proposal would raise the full retirement age to 70. Starting in 2023, the age would increase by two months each year until it reached 70 in 2040. This is estimated to fill 44 percent of the funding gap.

Argument for:

David John

The Heritage Foundation

Argument against:

Virginia Reno

National Academy of Social Insurance

David John

Social Security’s full retirement age should increase for the simple reason that people are living longer. When we talk about Social Security, the number that really matters is how much longer people who have reached age 65 will live. That statistic is the best estimate of how long they will collect benefits. Facts from a number of government agencies all show the same thing. People who have reached age 65 live longer now than they did in the past, and more people live to age 65.

When Social Security was created in 1935, 65-year-old men could expect to spend about 13 years in retirement—16 percent of their lifetime. Women of the same age averaged 15 years—or 18 percent of their lifetime—in retirement. Today, a male retiree born in 1942 will live on average 17.5 years beyond age 65, and spend 19 percent to 25 percent of his life collecting Social Security benefits, depending on whether he retired at age 65 or chose early retirement. A woman born in the same year will live about 20 years beyond age 65, and will collect benefits for 21 percent to 27 percent of her life.

All Americans are living longer, although various ethnic and racial groups have slight differences. Counting both genders together, an African-American who reaches age 65 has a total life expectancy of 1.2 years less than a non-Hispanic Caucasian. However, a Hispanic worker at age 65 has a life expectancy that is 4.2 years *longer* than that of an

Social Security Reform Option: Raise the Full Retirement Age

African-American and 3 years longer than that of a non-Hispanic Caucasian. In all groups, women tend to live several years longer than men.

And longevity is continuing to increase. The Centers for Disease Control says that just between 2000 and 2006, life expectancy for people who have reached age 65 increased by 0.9 years. During those six years alone, it went up by a full year for both white and African-American men, 1.1 years for African-American women, and 0.7 years for white women.

Today's Social Security has not kept pace with longevity increases that have already happened. To reflect this reality, the full benefits age should be increased still farther. Otherwise, recipients will spend an ever higher proportion of their lives in retirement.

Many who wish to work longer may have health issues or disabilities that make it impossible to delay retirement. Workers with physically demanding jobs are most likely to face these issues. They should not be penalized by higher age requirements. Instead, they should receive benefits through Social Security's disability insurance program until they reach the new retirement ages. However, those who are healthy enough to work longer should delay when they take retirement benefits. That is only fair.

Virginia Reno

Increasing Social Security's full retirement age (FRA) is an across-the-board benefit cut at any age you take benefits. The scheduled increase from 65 to 67 means that workers now age 52 and younger will face a permanent 13 percent cut in their monthly benefits. Cutting benefits more by further raising the age would place undue hardship on today's young workers. Increasing the age to 68 would cut benefits by 20 percent for workers now 46 and younger; increasing the age to 70 would cut benefits by 30 percent for workers 34 and younger. This steady erosion of Social Security benefits would seriously undermine the retirement prospects of today's young workers. Policymakers can do better. Social Security's projected financing shortfall is manageable. In national surveys, Americans report that they value Social Security and are willing to pay for it to keep it strong.

Some people call for raising the FRA because people are living longer and thus (in their view) should work longer. But most of the gains in life expectancy over the past 30 years have gone to higher earners. A higher FRA would greatly disadvantage low-paid and minority workers, who, on average, have seen little or no gain in life expectancy. Lower-paid workers are also more likely to have physically demanding jobs, face work-limiting health problems, and experience declining demand for their skills as they grow older. As an eminent economist recently noted, raising Social Security's retirement age is like saying that "janitors should be forced to work longer because corporate lawyers live to a ripe old age."

Social Security already provides new incentives for people to work longer if they can. If Congress wants to encourage later retirement, it could increase public education about the advantages of waiting to start collecting benefits. People reaching age 70 in 2013 are the first to be eligible for a full 8 percent benefit increase for each year they delay taking benefits past the FRA, until age 70. In the past, the increase was just 3 percent per year. Congress could also fund the Social Security Administration to provide working Americans with personalized statements showing their projected retirement benefits (as

Social Security Reform Option: Raise the Full Retirement Age

was done before budget cutbacks in 2011), highlighting the dramatic increases available to workers who can wait until 70 to begin claiming benefits.

Policymakers can encourage people to work longer without unfairly penalizing those who cannot. Further raising the FRA would be a stealth benefit cut that is unnecessary and unwanted. Americans of all ages say they would rather pay more for Social Security than see future benefits cut.

David John is a Senior Research Fellow at The Heritage Foundation.

Virginia Reno is Vice President of Income Security Policy at the National Academy of Social Insurance.

Perspectives 18, June, 2012

AARP Public Policy Institute,
601 E Street, NW, Washington, DC 20049
www.aarp.org/ppi.
202-434-3890, ppi@aarp.org
© 2012, AARP.
Reprinting with permission only.

NOTE: The estimated solvency effects in this Perspectives report are based on the intermediate assumptions in the *2011 Social Security Trustees Report*.

The views expressed herein are for information, debate and discussion,
and do not necessarily represent official policies of AARP.